

Message Text

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ACTION NEA-10

INFO OCT-01 EB-07 SS-15 SP-02 INR-07 NSC-05 CIAE-00 TRSE-00
ISO-00 SSO-00 INRE-00 /047 W
----- 057518 /43 S

O P 181520Z DEC 76
FM AMEMBASSY JIDDA
TO SECSTATE WASHDC IMMEDIATE 6608
INFO AMEMBASSY ABU DHABI PRIORITY
AMEMBASSY ALGIERS PRIORITY
USINT BAGHDAD PRIORITY
AMEMBASSY BONN PRIORITY
AMEMBASSY CARACAS PRIORITY
AMEMBASSY JAKARTA PRIORITY
AMEMBASSY DOHA PRIORITY
AMEMBASSY KUWAIT PRIORITY
AMEMBASSY LAGOS PRIORITY
AMEMBASSY LIBREVILLE PRIORITY
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AMEMBASSY TRIPOLI PRIORITY
AMEMBASSY VIENNA PRIORITY

C O N F I D E N T I A L SECTION 1 OF 2 JIDDA 8102

E.O. 11652: GDS
TAGS: ENGR, OPEC, QA, SA
SUBJECT: SAUDIA ARABIAN POSITION AT OPEC'S DOHA
CONFERENCE

REF (A) DOHA 1397, (B) JIDDA 8055
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SUMMARY: AT OPEC'S RECENT DOHA CONFERENCE, THE SAG
TOOK THE UNPRECEDENTED STEP OF BRAKING WITH FELLOW OPEC
MEMBERS OVER OIL PRICES. THIS DECISION WAS TAKEN VERY RECENTLY
BEFORE THE CONFERENCE CONVENED AND WAS ALMOST CERTAINLY MADE
BY CROWN PRINCE FAHD HIMSELF. THE SAG MAY HAVE INTENDED TO SHOW

COOPERATION AND GOOD WILL TOWARD THE NEW ADMINISTRATION OF PRESIDENT-ELECT CARTER, AND ESPECIALLY TO ENCOURAGE THE PRESIDENT ELECT TO TACKLE THE ARAB-ISRAELI PROBLEM EARLY. IN THIS SENSE, THE DECISION CAN BE SEEN AS THE SAG'S GIVING PRECEDENCE TO ITS POLITICAL RELATIONS IN THE AREA (WHICH LINK IT TO EGYPT, SYRIA, JORDAN) OVER ITS ECONOMIC ONES (WHICH LINK IT TO IRAN, IRAQ, ALGERIA, AND LIBYA). THE SAG MAY ALSO HAVE BEEN CONCERNED AT THE FRAGILITY OF THE ECONOMIC RECOVERY OF EUROPE AND THE UNITED STATES. OUR JAWBONING HERE PROBABLY WON US SOME POINTS. THE SAG WILL APPRECIATE OUR THANKS FOR ITS OPEC POSITION, BUT IN THE WEEKS AHEAD WE SHOULD NOT GLOAT OVER THE POSSIBLE DEMISE OF OPEC. ALSO, IT WOULD BE BAD TIMING IF IN THE FIRST DAYS OF A NEW CONGRESS THE SAG WERE TO COME UNDER RENEWED ATTACK OVER VISAS, THE BOYCOTT, AND ARM SALES. END SUMMARY.

1. AT THE RECENTLY-COMPLETED OPEC MEETING IN DOHA, THE SAG TOOK THE UNPRECEDENTED STEP OF BREAKING WITH ITS FELLOW OPEC MEMBERS OVER PRICES (AND PERHAPS PRODUCTION LEVELS). WE BELIEVE THE SAUDI DECISION TO GO TO DOHA REQUESTING A FREEZE IN THE PRICE OF OIL WAS MADE VERY RECENTLY BEFORE THE MEETING. UNTIL THEN, THE SAUDIS HAD INTENDED TO PUT THEIR WEIGHT BEHIND A "MODERATE" PRICE INCREASE, AND THEIR NEGOTIATIONS WITH OTHER OPEC STATES HAD BEEN IN THIS DIRECTION. THIS EARLIER POSITION APPEARS TO HAVE BEEN TO AGREE TO A FIVE-PERCENT HIKE, THREATEN TO "VETO" ANYTHING OVER 10 PERCENT, AND ACCEPT SOMETHING IN BETWEEN.

2. THERE IS NO DOUBT IN OUR MIND THAT THE DECISION TO CALL FOR A PRICE FREEZE AND TO HOLD THE LINE AT FIVE PERCENT REGARDLESS, CONFIDENTIAL

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WAS MADE AT THE VERY HIGHEST LEVELS OF THE SAG. THE CREDIT MUST GO TO CROWN PRINCE FAHD, WHO SERVED DURING THIS PERIOD AS REGENT (THE KING WAS AWAY IN SWITZERLAND FOR MEDICAL TREATMENT). THE DECISION WAS CONCURRED IN ALSO BY FAHD'S SOMETIME OPPONENT IN HIGHER COUNCILS, SECOND DEPUTY PRIME MINISTER AND NATIONAL GUARD COMMANDER PRINCE ABDULLAH BIN ABD AL AZIZ WHO RELATED IT TO US ON DECEMBER 15 (REF. B).

3. WHY DID THE SAG TAKE THIS FIRM POSITION? THERE WERE A NUMBER OF INTERRELATED REASONS WHY THE SAUDIS FINALLY OPTED FOR A STRONG STAND. IN EXPLAINING THEIR DECISION IN THE COMING WEEKS, THE SAG WILL EMPHASIZE VARIOUS OF THEM DEPENDING ON THE AUDIENCE. (A) POLITICAL; THE MAJOR REASON WAS THE SAG'S DESIRE TO ALLOW THE NEW US ADMINISTRATION AN OPPORTUNITY TO GET DOWN TO WORK WITHOUT HAVING TO FACE THE PROBLEMS A SUBSTANTIAL PRICE COULD HAVE CAUSED. IN PARTICULAR THE SAG WANTS THE US TO MOVE FAST IN TACKLING THE ARAB-ISRAELI PROBLEM WHILE THERE MAY HAVE BEEN SOMETHING OF A DESIRE TO INGRATIATE ITSELF WITH THE NEW

US ADMINISTRATION, AS ALREADY SUGGESTED BY SOME IN US PRESS, SAUDI MOTIVATIONS ARE CERTAINLY DEEPER AND MORE SUBTLE THAN THAT. THEY ARE PAINFULLY CONSCIOUS, FOR INSTANCE, THAT WHENEVER OPEC DECIDES TO RAISE PRICES IT IS BLAMED ON "THE ARAB OIL SHAIKS" EVEN THOUGH THE IMPORTANT PRICE HAWKS ARE NOT ALL ARAB. THE SAUDIS WOULD, THUS, HAVE BEEN SEEKING TO AVOID ANOTHER SPATE OF ANTI-ARAB FEELING IN THE US WHICH MIGHT HAVE LIMITED THE NEW ADMINISTRATIONS FREEDOM ON ACTION. IN THIS, THE SAG MIGHT ALSO HAVE BEEN INFLUENCED BY EGYPT AND SYRIA, WHOSE "PEACE OFFENSIVE" (AND THE SAG'S OWN) APPEARS TO BE BEARING FRUIT AND COULD HAVE BEEN DERAILED BY IRRESPONSIBLE OPEC ACTION. IT THEREFORE APPEARS THE SAG DECIDED TO GIVE PRIORITY TO ITS REGIONAL POLITICAL OBJECTS--WHICH ALIGN IT WITH EGYPT, SYRIA, AND JORDAN, RATHER THAN ITS ECONOMIC ONES, WHICH INCIDENTALLY LINK IT TO ALGERIA, IRAQ, LIBYA, AND IRAN.

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ACTION NEA-10

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CIAE-00 TRSE-00 SSO-00 ISO-00 /047 W
----- 057600 /43

O P 181520Z DEC 76
FM AMEMBASSY JIDDA
TO SECSTATE WASHDC IMMEDIATE 6609
INFO AMEMBASSY ABU DHABI PRIORITY
AMEMBASSY ALGIERS PRIORITY
USINT BAGHDAD PRIORITY
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C O N F I D E N T I A L SECTION 2 OF 2 JIDDA 8102

(B) ECONOMIC: ECONOMIC REASONS WILL ALSO HAVE PLAYED A ROLE. OUR JAWBONING TACTICS, WE BELIEVE, WON US A RELUCTANT HEARING ON THE PART OF SOME IN THE SAG. THE SAUDIS ARE VERY MUCH AWARE THAT THEIR OWN ECONOMIC WELL-BEING IS INTIMATELY TIED TO THAT OF THE WESTERN NATIONS AND AS YAMANI SAID AT DOHA, THE SAG IS CONCERNED ABOUT THE FRAGILITY OF
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THE ECONOMIC RECOVERY IN EUROPE AND THE U.S. THE LATTER ARE THE SOURCE OF THE TECHNOLOGY AND EQUIPMENT FOR THE KINGDOM'S AMBITIOUS ECONOMIC DEVELOPMENT, THE CONSUMERS OF ITS OIL EXPORTS, AND THEIR FINANCIAL INSTITUTIONS ARE THE GUARDIANS OF THE FUNDS THE SAG CANNOT SPEND. THE SAUDI CONCERN FOR THE HEALTH OF THE FREE WORLD IN THE FACE OF THE COMMUNIST MENACE MAY SEEM QUAIN TO OUTSIDERS, BUT IT IS REAL AND A CONSISTENT DETERMINANT TO SAUDI ACTIONS.

5. PROSPECTS AND CONSEQUENCES: (A) THE SAG MAY FEEL THAT ITS PRESENT STANCE IN OPEC MAY DISCOURAGE SOME OF ITS COLLEAGUES-- PARTICULARLY THE IRAQIS--FROM CHEATING ON OPEC AGREEMENTS AS THEY HAVE IN THE PAST. WE DOUBT HOWEVER, IF THE SAG WILL PUSH ITS ARGUMENT WITH ITS OPEC COLLEAGUES TO THE POINT OF RAPIDLY MOVING UP TO THE POTENTIAL RATE OF OIL PRODUCTION PERMITTED BY THE ARAMCO PHYSICAL PLANT THAT IS MOSTLY IN PLACE. AS CONSUMER STORAGE IS LARGELY TOPPED UP, AND PRODUCTION INCREMENTS BEYOND ABOUT 9.5 MILLION B/D ARE NOT IMMEDIATELY AVAILABLE, WE DO NOT EXPECT A MAJOR PRODUCTION SURGE IN THE SHORT RUN.

(B) CIEC. THE SAUDIS HAVE PROBABLY BOUGHT SOME FAVOR IN THE THIRD WORLD BY THEIR PRICING DECISION, AND SEEM ANXIOUS TO SEEK MORE THROUGH OBTAINING INDUSTRIALIZED COUNTRY CONCESSIONS IN CIEC. THEY DO NOT HAVE ANY ISSUES OF THEIR OWN WHICH THEY WILL PUSH HARD AT CIEC, BUT THEY WILL WANT TO TAKE CREDIT WHEREEVER POSSIBLE FOR G-8 CONCESSIONS

(C) BILATERAL ISSUES. THE PRICING DECISION WILL PROBABLY HAVE THE EFFECT OF PERSUADING THE SAG TO DIG IN ITS HEELS ON A NUMBER OF BILATERAL ISSUES SUCH AS THE BOYCOTT, ON WHICH SAG WILLINGNESS TO MAKE CONCESSIONS IS ALREADY LIMITED WITHOUT SOME QUID FROM THE USG. SIMILARLY, THE SAG WILL BE CONCERNED IF

EXPERIENCE SHOWS THAT THE AMERICAN OIL COMPANIES ARE THE MAJOR BENEFICIARIES OF THEIR PRICE MODERATION, AND MAY LOOK TO US TO JAWBONE THE SAVINGS THROUGH TO THE FINAL CONSUMER.

6. RECOMMENDATIONS: WE BELIEVE THE SAUDIS WILL MUCH APPRECIATE
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OUR HIGH-LEVEL EXPRESSIONS OF THANKS FOR THEIR POSTION AT DOHA. WE ARE IN FULL ACCORD WITH DOHA'S REFTTEL, AND WE THINK IT IMPORTANT THAT USG STATEMENTS OVER THE NEXT DAYS AND WEEKS AVOID SPECULATION OR CROWING ABOUT THE IMMINENT DEMISE OF OPEC, OR ABOUT SAUDI DIFFERENCES WITH ITS OPEC PARTNERS. NOTHING COULD BE BETTER DESIGNED TO PUT THE SAG BACK UP AT THIS STAGE. FINALLY, WHILE WE DO NOT BELIEVE THE SAG WAS PROMPTED TO ACT AS IT DID AT DOAH BECAUSE OF SHORT-RANGE, SPECIFIC, BILATERAL ISSUES, IT WOULD SEEM TO THE SAUDIS BAD TIMING IF THEY WERE IMMEDIATELY TO COME UNDER STRONG RENEWED CRITICISM OVER BOYCOTT ISSUES, VISAS, AND ARM SALES ONCE THE NEW CONGRESS CONVENES.
PORTER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM PRODUCTION, MINISTERIAL MEETINGS, FOREIGN POLICY POSITION, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 18 DEC 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ShawDG
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976JIDDA08102
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: RR
Errors: N/A
Film Number: D760466-0257
From: JIDDA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761230/aaaaazux.tel
Line Count: 249
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 76 DOHA 1397, 76 JIDDA 8055
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 31 MAR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <31 MAR 2004 by hartledg>; APPROVED <13 AUG 2004 by ShawDG>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SAUDIA ARABIAN POSITION AT OPEC'S DOHA CONFERENCE
TAGS: ENRG, QA, SA, OPEC
To: SECSTATE WASHDC ABU DHABI ALGIERS BAGHDAD BONN CARACAS JAKARTA DOHA
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006